

Factsheet 31 December 2019

NIKKO AM NZ CASH STRATEGY

Assets are held in the Nikko AM Wholesale NZ Cash Fund. The Nikko AM NZ Cash Fund (retail) and Nikko AM KiwiSaver Scheme NZ Cash Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- The year ended with positive economic data and announcements. Key among these were the Government announced an additional \$12 billion of infrastructure spending over the next 5 years. \$8 billion was assigned to specific areas with the balance of \$4 billion added to the multi-year capital envelope to be allocated at a later date.
- The Reserve Bank's announcement of its bank capital decision and third quarter Gross Domestic Product (GDP).
- Positive economic data combined with the increased fiscal spending and a somewhat softened bank capital decision increase the probability that the Reserve bank remains on hold in its next official cash rate review.

Fund Highlights

- The fund continues to perform well, benefiting from a higher yield than its benchmark.
- We favour investing in one year maturities as they continue to provide the highest returns. The fund has been positioned with a longer duration than its benchmark resulting in performance benefits following OCR rate cuts.
- Returns will likely reduce over coming months as longer dated securities mature and the proceeds are reinvested at current market rates.

Performance

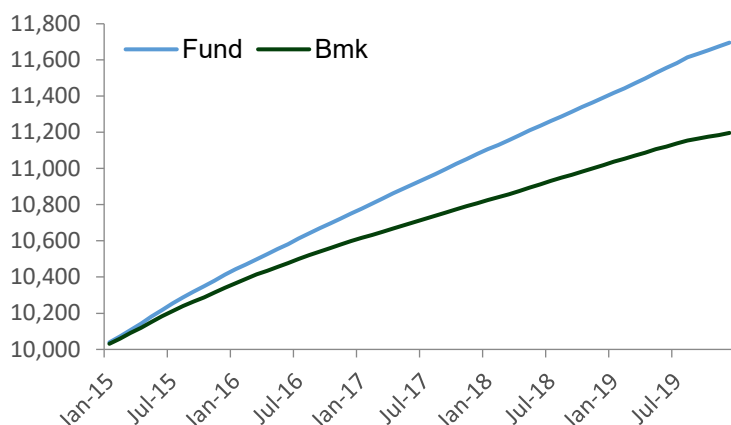
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.18%	0.53%	2.67%	2.85%	3.18%	3.67%
Benchmark ²	0.10%	0.28%	1.62%	1.85%	2.29%	2.60%
Retail ³	0.15%	0.43%	2.29%	2.48%	2.80%	
KiwiSaver ³	0.14%	0.40%	2.54%			

1. Returns are before tax and before the deduction of fees.

2. Benchmark: Bloomberg NZBond Bank Bill Index. No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

Five Year Cumulative Performance, \$10,000 invested^{1, 2}



Portfolio Manager

Fergus McDonald,
Head of Bonds and Currency

Fergus is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981. The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.



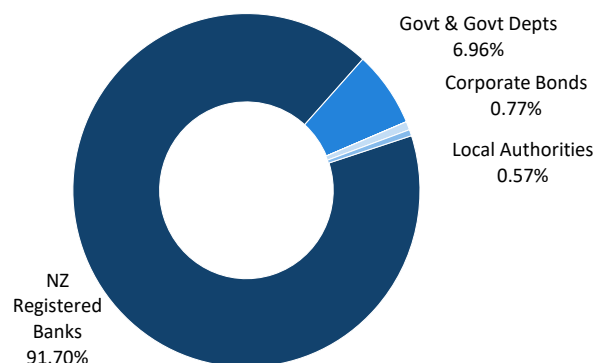
Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

Objective

The fund aims to outperform the benchmark return by 0.20% per annum before fees, expenses and taxes over a rolling three year period.

Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand Ltd	24.15	AAA	-	Fund 98 days vs Benchmark 45 days
Kiwibank Ltd	17.72	AA	65.67	
ASB Bank Limited	11.02	A	34.33	Yield
HSBC Bank New Zealand	5.81	BBB	-	Fund (gross) 2.11% vs Benchmark 1.20%
Rabobank	5.78			

Market Commentary

The year ended with positive economic data and announcements. Key among these were the Government's announcement of \$12 billion in additional infrastructure spending over the next 5 years, the Reserve Bank's announcement of its bank capital decision and third quarter GDP. These along with other economic data increase the likelihood the Reserve bank will remain on hold in its next official cash rate review.

The Government's infrastructure spending is assigned as \$8 billion to specific areas with the balance of \$4 billion added to the multi-year capital envelope to be allocated at a later date. No specific projects were announced however funding was earmarked for key spending areas including \$6.8 billion for transport projects, \$400 million for school maintenance, \$300 million each for regional investment opportunities and district health board asset renewal and \$200 million for public estate decarbonisation.

The Reserve bank announced its decision on the level of capital New Zealand banks will be required to hold, with major banks needing to hold 16% tier-1 capital and smaller banks 14%. This level of capital was consistent with earlier announcements however a softening was provided through a longer implementation period of 7 years versus the original 5 years. Increased flexibility in the composition of the required capital stack was also announced with the level of allowable alternative tier-1 capital increased (2.5 percentage points versus the original 1.5 percentage points). The impact of these changes reduces the overall cost of the increased capital as less common equity will be required, while the longer implementation timeframe allows the smoothing of any impacts and improves the potential for banks to use retained earnings to fund part of the required capital.

Fund Commentary

We continue to favour holding term deposits up to one year in maturity as they offer superior relative returns and will perform well if rates are stable or interest rates fall further. Liquidity is actively managed by ensuring a significant proportion of the fund is in readily marketable securities in high credit quality names and by staggering term deposit maturities.

The fund continued to outperform its benchmark returning 0.18% compared to 0.10% generated by the 90-Day Bank Bill index. With short term rates relatively unchanged across the month a higher portfolio yield positively contributed to December's return. Over time we expect a longer duration with is associated pickup in yield to positivity contribute to performance.

Key Fund Facts

Distributions

Wholesale fund:	Calendar quarter
Retail fund:	Calendar quarter
KiwiSaver fund:	Does not distribute

Estimated annual fund charges (incl. GST)

Wholesale:	Negotiated outside of unit price
Retail:	0.35%, refer PDS for more details
KiwiSaver:	0.46%, refer PDS for more details

Hedging

All investments will be in New Zealand dollars

Buy / Sell spread

0.00% / 0.00

Strategy size

\$874.8m

Strategy Launch

October 2007

Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

Contact Us

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